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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 000132

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DEPARTMENT FOR EUR DAS BRYZA

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TAGS: [ENRG](#) [AZ](#) [TU](#) [GA](#) [PREL](#) [PGOV](#)

SUBJECT: AZERBAIJAN: NABUCCO COMES TO BAKU LOOKING FOR TEN BCM

Classified By: Ambassador Anne E. Derse, Reasons 1.4 (b,d)

¶1. (C) SUMMARY: In a January 25 conversation with the Ambassador, OMV Chief Executive Officer Wolfgang Ruttenstorfer said that the purpose of his first visit to Azerbaijan was to begin the quest for a contract with Azerbaijan for ten billion cubic meters of gas annually starting in 2012-2013, which would allow operations of the Nabucco Pipeline to begin at that time. Another purpose was to encourage arrangements for an equitable and transparent transit regime through Turkey. Ruttenstorfer said that 'finding ten bcm of available gas' by the end of 2007 was crucial for the timely enactment of the Nabucco project, and that Azerbaijan was the first choice for this gas. He added however that any gas that he could not get in Azerbaijan would have to come from either Russia or Iran. While SOCAR officials told Ruttenstorfer that Azerbaijan would have 13-14 bcm available for export to Europe by 2012, Statoil officials (responsible for marketing Shah Deniz Gas) separately told him that no decisions had been made yet regarding Shah Deniz Phase Two sales. Ruttenstorfer's first trip to Baku was an important one, as it begins a relationship with GOAJ interlocutors that will focus their attention on decisions that need to be made imminently in order for Azerbaijani gas from Shah Deniz Phase Two to make it through Turkey and to Europe starting in 2012. END SUMMARY

2.(C) On January 25 Ambassador Derse met with OMV Chief Executive Officer Wolfgang Ruttenstorfer to discuss the Nabucco pipeline. Also present were Nabucco Gas Pipeline Managing Director Reinhart Mitschek, OMV board member Dr. Werner Auli, EconGas Managing Director Michael Peisser, and EnergyOff as notetaker.

¶3. (C) Ruttenstorfer told the Ambassador that this was his first trip to Baku, but he would be traveling here regularly henceforth. On this trip, he and the delegation had met separately with SOCAR President Rovnaq Abdullayev and Statoil (representing the Shah Deniz Consortium) thus far, and were scheduled to meet with Energy Minister Natiq Aliyev later in the day. They were interested in two issues during this trip: 1) the need to secure provision of gas supply contracts so that construction of the Nabucco pipeline can go forward; 2) the need to have a transit agreement that facilitates gas flow across Turkey.

FINDING 10 BCM

¶4. (C) Ruttenstorfer said that Nabucco needs to secure contracts for the provision of at least ten billion cubic meters (bcm) of gas annually to allow the pipeline project to go ahead, given the projected 30 bcm/a capacity of the pipeline. The gas cannot come from Russia, getting gas from Turkmenistan in the short-term is improbable, and there are 'issues' with Iranian gas: therefore the logical choice as supplier of this ten bcm is Azerbaijan. Over the longer term, once the pipeline is operational, perhaps the situation with Iran and/or Iraq would change sufficiently to allow gas from these countries to enter the pipeline. Ruttenstorfer said that available quantities of gas in Azerbaijan are relatively limited - Socar President Abdullayev told him that Azerbaijan would have approximately 13-14 bcm available for export to Europe in 2012, the projected start date of the Nabucco pipeline. Abdullayev told Ruttenstorfer that Azerbaijan would sell 8 bcm to Italy and two bcm to Greece, leaving three bcm for Nabucco. Statoil (the marketer for Shah Deniz gas under the company Azerbaijan Gas Supply Company - AGSC) was surprised when Ruttenstorfer told them of this statement by Abdullayev, saying that they knew nothing about any deals to provide gas to Italy or Greece. Statoil said that no decisions had been made yet as to where this Shah Deniz Stage Two gas would go, discussions are ongoing, and thinks that perhaps eight to ten bcm could be available for export.

¶5. (C) Ruttenstorfer said that there is currently a 'race for gas' within Europe. He stressed that the Nabucco project needs a minimum of 10 bcm of committed gas to be ready by 2012-2013. When asked why, he said that the Nabucco pipeline maximum capacity is 30 bcm/a, and that the minimum amount needed to start the pipeline would be 10 bcm, going to

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15bcm/a within three to five years. He said that he needs a commitment of 8-10 bcm/a from Azerbaijan in 2007. With a contract in hand for 8-10 bcm, the Nabucco project would be able to get bank financing. If Nabucco cannot come up with a contract for ten bcm of gas from somewhere within 2007, a 2012 start date is unlikely. Ruttenstorfer added that "whatever we don't get in Azerbaijan, we'll have to get in either Russia or Iran." Ruttenstorfer said that he had no problem with there being some Russian gas in the pipeline, as long as there was European control of the pipeline. Russia could be sold on involvement in Nabucco as a way to circumvent Ukraine. Mitschek said that Russia knows that Azerbaijani gas is the first option for Nabucco, which is why it is putting so much pressure on Azerbaijan.

TURKISH TRANSIT

¶6. (C) Ruttenstorfer said that Europe must say to Turkey in a unified voice that a fair transit regime for Caspian gas through to Europe "is a must" for Turkey. However, Turkey wants to either exact high transit fees, be a gas trader, or extract a major political benefit with respect to accession from allowing gas to transit to Europe. Ruttenstorfer pointed out that approximately one-half of the three thousand kilometer Nabucco pipeline would be in Turkey. Turkey cannot be allowed to buy and re-sell the transiting gas. Mitschek said that Turkey feels squeezed between Europe, Russia and Iran, and wants to use the Nabucco project both as leverage to speed up EU accession and also to lower the price of Russian gas. When the Ambassador asked if any GOAJ interlocutors had mentioned progress in transit talks with Turkey, Ruttenstorfer replied that no one had, although Socar had mentioned a Sales and Purchase agreement with Turkey to buy and resell 8 bcm to Italy.

REFINING W/SOCAR

¶7. (C) Ruttenstorfer pointed out that due to OMV ownership of

a large chain of gas stations in Turkey, it was looking for involvement with a refinery in Turkey. Socar President Abdullayev had brought up its joint venture with Turkish oil company Turcas to build a refinery in Ceyhan, and inquired as to whether OMV would be interested in participating in some way. Ruttenstorfer said that OMV was interested, and would be pursuing this topic with Socar, which would bring a "second dimension" to its relationship with Socar.

¶8. (C) COMMENT: Ruttenstorfer's first trip to Baku was an important one, as it begins a relationship with GOAJ interlocutors that will focus their attention on decisions that need to be made imminently in order for Azerbaijani gas from Shah Deniz Phase Two to make it through Turkey and to Europe starting in 2012. As such, it is heartening to hear Ruttenstorfer say that this will be the first of many trips to Baku. It is noteworthy that in recounting his discussion with Socar President Abdullayev, Ruttenstorfer did not recount Socar's desire, relayed to us by Abdullayev on January 25 (septel), to explore the possibility of becoming a partner in Nabucco in exchange for provision of Azerbaijani gas. END COMMENT.

DERSE